OPINION |

A matter of policy

Understanding aircraft insurance

BY MIKE BUSCH

IF YOU OWN AN AIRCRAFT, you probably have aircraft insurance. Whether it's the right amount of the right coverages is worth exploring. Here's what I've learned in more than 50 years of aircraft ownership, plus extensive discussions with veteran industry insiders who have forgotten more than I'll ever know on the subject.

ANATOMY OF A POLICY

All insurance policies are contracts in which the insurer promises to pay benefits to the insured if certain defined events occur, provided that the insured has paid the agreed-to premium and met certain other conditions. Policies are contracts of adhesion, meaning that the insurer drafts the contract and offers it on pretty much a take-it-or-leave-it basis. This can pose a trap: Insureds rarely receive a copy of the policy until after they've agreed to it, and even then they rarely read it. The good news is that courts tend to interpret any policy ambiguities in favor of the insured.

Insurance policies can appear intimidating, but they're not that complicated. They consist of two sections: a declaration (which identifies the insured, the insurer, the policy period, the premium amount, the kinds and maximum limits of coverage, and any applicable deductibles), and the policy form (boilerplate contractual language) that includes definitions, insuring agreement, exclusions, and conditions.

In many areas of property and casualty insurance (such as auto and homeowners), industry-standard policy forms are used by almost all insurance companies. There's no such standardization among light aircraft insurance underwriters. Policies from different companies can have very different terms. It's crucial that you read the full policy in order to understand what you're buying.

HOW MUCH LIABILITY?

The typical light aircraft policy covers bodily injury and property damage (liability), medical payments, and physical damage to the aircraft (hull insurance). Liability coverage may be smooth (e.g., $1 million combined single limit) or may have per-person or per-passenger sublimits (e.g., $1 million limited to $100,000 per person).

Smooth coverage is expensive. Perhaps 90 percent of light aircraft policies have sublimits, which is cheaper but can severely reduce your protection. A per-passenger sublimit caps the amount your policy will pay for injury or death of an occupant of your aircraft; this might be acceptable if you only fly with immediate family. A per-person sublimit also caps the amount your policy will pay if your aircraft hurts or kills someone on the ground or in another aircraft, so should be avoided.

Every expert I've talked to recommends avoiding sublimits and buying as much liability coverage as you can possibly get (which usually means $1 million smooth). Most liability claims are settled within policy limits, but don't count on that if you're a high-net-worth individual who a plaintiff lawyer considers to be worth suing.

HOW MUCH HULL?

Unlike automobile policies, aircraft physical damage coverage is written on a "stated value" basis. If you have an accident and make an insurance claim, your insurer will do one of two things: pay the cost of repairing your aircraft up to the stated value minus any deductible; or determine the aircraft is a "constructive total loss" and write you a check for the stated value less any deductible, then sell the aircraft for its salvage value. Which happens will be determined by the policy language, repair estimate, stated value, and perhaps negotiation between insurer and insured. Many aircraft policies specify a constructive total loss if the cost to repair exceeds 70 percent of stated value.

Some owners are tempted to save money by insuring their aircraft for less than it's worth. By doing so, they risk losing their aircraft after a "fender-bender" accident because the insurance company decides it's cheaper to write a check for the (under)stated value and sell the aircraft for salvage than it is to let the owner keep it and write a check for the repairs.

Other owners are inclined to insure their aircraft for more than it's worth. The problem with this—besides paying a higher premium than necessary—is the risk of having the insurance company opt to repair a severely damaged aircraft, leaving the owner stuck without an aircraft for months or even years.

It's best to insure the hull for your aircraft's actual market value—what you could realistically sell it for if you had to. Prior to each annual renewal, it's a good idea to check your aircraft's "comps" in *Trade-A-Plane* or Aircraft Shopper Online and to check *Vref* (aopa.org/vref) or *Aircraft Blue Book* and adjust your hull coverage accordingly.

ARE YOU FLYING?

The typical "all risks" policy covers untoward events that occur in flight or on the ground. Insurers also offer "not-in-motion" and "not-in-flight" coverage that is much less costly. Not-in-motion coverage is appropriate when you know the aircraft will not be moving under its own power; not-in-flight coverage also provides coverage while taxiing so long as the wheels stay on the ground.

These limited coverages can save you money whenever you know your airplane will not be flying—perhaps it's down for extensive maintenance, or it's used only during certain seasons. Keep in mind, however, that most insurers will only permit you to switch from all-risks to ground-only coverage and back once per policy year.

About 30 years ago, I had just bought my Cessna 310. Despite thousands of hours flying high-performance retractable singles, I had less than 50 hours of multiengine time and was quoted an astronomical rate for insurance. My broker suggested that if I were willing to assume the risk of flight-related hull damage during my first year as a twin owner, I could save a small fortune on premiums by opting for not-in-flight coverage. I took his advice, somehow managed to get through that first year, and received a reasonable all-risks quote at renewal.

UNDERWRITERS AND BROKERS

Roughly a dozen underwriting firms presently offer light aircraft insurance. That number has fluctuated a lot as underwriters enter and leave the market. A greater number of underwriters tends to make insurance easier to get and cheaper to buy because of increased competition. Lower premiums squeeze underwriter profits and force weaker companies out of the business. Less competition then causes premiums to rise. Lather, rinse, repeat.

With one exception, aircraft insurance underwriters offer their policies through brokerage agencies. The brokers wear two hats: a distribution system for underwriters, and as advocates for aircraft owners. For doing this, the broker typically receives a 15 percent to 20 percent commission on the insurance premiums you pay.

You're entitled to receive a good deal of advocacy from your broker, but often you won't unless you ask for it. Every broker will shop your insurance with various underwriters and present you with an array of premium quotes. Many aircraft owners simply go with the low bid, but I suggest that before you choose an underwriter you ask your broker two questions: Which company offers the broadest policy form with the fewest "gotchas," and which company offers the most efficient and hassle-free claims service? An experienced broker should be able to answer those questions easily; a less experienced one might not. Armed with information about price, policy form, and claims philosophy, you can make an educated choice.

The exception I mentioned earlier is Avemco, unique in being a direct writer of aircraft insurance. You might think they'd offer significantly cheaper premiums because they don't have to pay a broker's commission, but that's not always so. It doesn't hurt to get a quote from Avemco to see how it stacks up with other underwriters, but you'll have to get the quote yourself (your broker can't).

HOW DO YOU RATE?

Underwriters use an actuarial rating formula to determine what premium to quote you. Each underwriter has its own algorithm, which it guards jealously as a trade secret. Assessments are based on the underwriter's loss experience with various types of aircraft and pilots, and are only partially mathematical with a large dose of judgment thrown in.

Aircraft insurance underwriters do not share loss experience data with one another, so their ratings can differ greatly. For example, a firm that has had bad loss experience with Pitts Specials, with older pilots, or with aircraft tied down in Oklahoma will quote higher premiums for such applicants than a company that hasn't had a bad experience with them. That's why quotes from different companies can vary so widely, especially for less common aircraft types.

Underwriters consider many factors in determining a premium. The applicant's time in type as pilot in command is given a lot of weight, with total time and pilot ratings somewhat less so. Pilots who are newly transitioning to more complex or higher-performance aircraft are considered riskier, as I found out the hard way when I moved up to a twin. Whether the aircraft is hangared or tied down outdoors makes a difference, as does any geographical risk of the location where the aircraft is based.

Certain kinds of aircraft are considered riskier: taildraggers, twins, floatplanes, warbirds, Experimentals, and so on. In today's competitive insurance market, you can get insurance on pretty much anything but a Lancair IV (which seems to be uninsurable at any price). If you're an older pilot flying a piston twin (like I am), you may only find one or two companies willing to quote; if you're a 30-year-old flying a Cessna Skyhawk, you might find a dozen companies quoting.

WHAT'S COVERED?

Hull insurance policies cover losses because of collision and storm damage but aren't intended to pay for maintenance or repair necessitated by the ravages of time or usage. They invariably contain exclusions for losses caused by "wear and tear" or "mechanical or electrical breakdown," and the effect can be counterintuitive. For example, when I had a piston skirt fail while overflying Las Vegas and fill the right engine of my Cessna 310 with dozens of marble-size chunks of aluminum, my insurance didn't cover the unplanned $40,000 overhaul cost.

But had the engine seized because I forgot to secure the oil cap and the engine ran out of oil, the repair probably would have been covered. Or had I forgotten to lower the landing gear and bellied it in under the stress of making an engine-out landing, my underwriter most likely would have declared the aircraft a constructive total loss (since the cost of two engine teardowns and two new props and some skin repairs would almost certainly exceed 70 percent of the aircraft's value) and written me a check for the stated value. You might say that losses due to failure of gray matter are almost always covered, while losses due to failure of aluminum usually aren't.

While mechanical/electrical/wear/tear losses are excluded, physical damage caused by such breakdowns is generally covered. If your engine throws a rod through the crankcase and punches a hole in the cowling, the engine failure typically isn't covered but the cowling repair is. Or if your battery boils over and the acid causes damage to your firewall or cowling, the battery isn't covered but the acid-spill damage is as a one-time event.

Sometimes insurance will cover losses you might not expect it to. When termite damage was found in the wooden wing of the Bellanca Super Viking owned by my friend Joe, I suggested he make an insurance claim—and to Joe's surprise and delight, the insurance company paid for a replacement wing. Termite damage wasn't considered to be wear and tear although wood rot probably would be. This is the sort of situation where you should ask your broker to go to bat for you with the insurance company. **AOPA**

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